

## Message Text

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ACTION NEA-12

INFO OCT-01 EUR-25 ISO-00 EB-11 COME-00 INT-08 SCEM-02

SCI-06 OMB-01 TRSE-00 CIAE-00 DODE-00 PM-07 H-03

INR-10 L-03 NSAE-00 NSC-10 PA-04 RSC-01 PRS-01 SPC-03

SS-20 USIA-15 ACDA-19 IO-14 AF-10 DRC-01 /187 W

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R 061735Z NOV 73

FM AMEMBASSY NEW DELHI

TO SECSTATE WASHDC 7737

INFO AMCONSUL BOMBAY

AMCONSUL CALCUTTA

AMCONSUL MADRAS

AMEMBASSY JIDDA

AMEMBASSY LONDON

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E.O. 11652: N/A

TAGS: ENGR, IN, SA

SUBJECT: CRUDE SUPPLY CUTBACKS: AN IMPACT OUTLOOK

REF: A) NEW DELHI 9773 B)NEW DELHI 12632 C) NEW DELHI 12420

SUMMARY: ARAB COUNTRY CRUDE OIL CUTBACKS, SHARPLY RISING WORLD COST OF CRUDE (AND FREIGHT RATES), TANKER SHORTAGES, AND RESULTANT NOVEMBER 3 GOI DECISION TO INCREASE SIGNIFICANTLY THE DOMESTIC RETAIL SELLING PRICES OF PETROLEUM PRODUCTS ARE BEING FRONT-PAGED DAILY IN THE INDIAN PRESS. COMMENTS BY PETROLEUM MINISTER D.K. BOROOAH, OTHER GOI OFFICIALS, AND OIL COMPANY REPRESENTATIVES HAVE BEEN QUOTED, MISQUOTED, AND INTERPRETED REPEATEDLY. (COMMENT: JOURNALISTIC SHOCK VALUE IS ACHIEVED SIMPLY BY QUOTING RECENTLY-INCREASED OILPORT POSTED PRICES INSTEAD OF ACTUAL PRICES DISCOUNTED TO INDIA. END COMMENT.) THE NET RESULT IS THAT MANY IN INDIA HAVE BEGUN TO ACCEPT "AN UNPRECEDENTED OIL CRISIS" AS AN UPCOMING FACT. THE CONSUMER IS CONVINCED THE "CRISIS" EXISTS TODAY.

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AFTER ALL, THE GOI HAS RAISED HIS GASOLINE COST BY NEARLY 90

PERCENT SINCE FEBRUAGN 1973 (TO RS. 2.81 PER LITER; THE EQUIVALENT OF DOLS 1.42 PER US GALLON).

DISCUSSIONS WITH PETROLEUM MINISTRY PERSONNEL AND OIL COMPANY REPRESENTATIVES REVEAL THAT, CURRENT AND FUTURE ISSUES NOTWITHSTANDING, INDIA HAS AN OIL PROBLEM BUT IT DOES NOT HAVE AN OIL CRISIS AT THE MOMENT AND ONE DOES NOT APPEAR TO BE ON THE IMMEDIATE HORIZON. BELT-TIGHTENING IN OIL, RATIONING, REDUCTINS IN PETROLEUM PRODUCT IMPORTS, TIGHTER DOMESTIC CONTROLS ON PRODUCT DISTRIBUTION, AND CRUDE OIL PURCHASE CUTBACKS (EITHER ARAB-COUNTRY OR SELF IMPOSED) ARE FORESEEN -- AND ADDITIONAL FOREIGN EXCHANGE EXPENDITURES FOR CRUDE OIL OVER THE PERIOD OF INDIA'S FIFTH FIVE YEAR PLAN MIGHT APPROACH AN ADDITIONAL DOLS 1.0 BILLION. TAKEN ANNUALLY, HOWEVER, THE ADDITIONAL COSTS NEITHER APPEAR TO BE PROHIBITIVELY HIGH NOR A DRASTIC ACCELERATION FROM THE TREND OF RECENT YEARS.

END SUMMARY.

1. ESSO ANNOUNCED NOVEMBER 3 THAT RECENTLY-IMPOSED CRUDE OIL CUTBACKS BY SAUDI ARABIA TO ESSO INDIA'S SUPPLIER, ARABIAN AMERICAN OIL COMPANY (ARAMCO), CALL FOR A MANDATOR 25 PERCENT REDUCTION IN CRUDE IMPORTS TO INDIA, EFFECTIVE IMMEDIATELY. ESSO ALSO CONFIRMED THE CANCELLATION OF VESSEL CONFIRMATIONS PROGRAMMED EALIER, AND AGAIN FOREWARNED THE GOI OF POSSIBLE DELAYS IN VESSEL LOADINGS (REF B) "UNTIL FURTHER NOTICE." INDICATIONS ARE, THEREFORE, THAT CRUDE OIL RECEIPTS AT THE FIRMS' BOMBAY REFINERY MAY DECLINE FROM 75,000 TO POSSIBLY AN AVERAGE OF 56,000 BARRELS DAILY -- OR FROM 25.03 TO 18.77 MILLION BARRELS ANNUALLY, IF THE CURRENTLY-REDUCED SCHEDULE CONTINUES IN EFFECT THROUGHOUT (SAY) 1974.

2. THE GOI ANTICIPATES EARLY "POSITIVE" STATEMENTS FROM CALTEX AND BURMAN-SHELL REGARDING SIMILAR CUTBACKS TO INDIA (REF B). (COMMENT: WHILE IT IS TRUE THAT CALTEX IS ON RECORD WITH A WARNING OF PENDING CUTBACKS, THE ASSUMPTION THAT BURMAN"-SHELL MAY "JOIN THE CUTBACK GROUP" MAY BE AN OVER-REACTION. BURMAH-SHELL HAS NOT YET VOICED AN OPINION, OR A POSITION, ON THIS ISSUE, AND MAY BE ATTEMPTING TO EXPLOIT ITS UNIQUE 'FAVORED-SON' ROLE IN INDIA EITHER THROUGH AN EARLY ANNOUNCEMENT THAT NORMAL IMPORTS WILL BE CONTINUED OR THAT REDUCTIONS MAY

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ONLY BE INSIFNIFICANT. BURMAN-SHELL'S BOMBAY REFINERY IS THE LARGEST IN THE PRIVATE SECTOR, THE COMPANY IS CURRENTLY NEGOTIATING QUIETLY WITH THE GOI TO PRESEVE ITS POSITION IN INDIA, VIA THE EQUITY-SHARE ROUTE, AND THE CRUDE IT IMPORTS TO INDIA ORIGINATES IN IRAN. END COMMENT.)

3. MEANWHILE, THE FOREIGN IMPORTERS OF CRUDE FOR THE GOI- CONTROLLED COCHIN AND MADRAS REFINERIES (TOTAL INTERNATIONAL

LIMITED AND THE NATIONAL IRANIAN OIL COMPANY, RESPECTIVELY)  
HAVE SUCCESSFULLY MAINTAINED A DEAFENING SILENCE ON THE CUTBACK  
QUESTION,  
YET, THE INDIAN PRESS HAS RUN RAPPANT RECENTLY BY  
CONSISTENTLY IMPLYING THAT ALL OF INDIA'S CRUDE OIL IMPORTERS  
WILL ULTIMATELY SEIZE UPON THIS OPPORTUNITY TO DIVERT CRUDE TO  
OTHER (MORE FAVORED) CONSUMING COUNTRIES (E.G. THE US AND  
WESTERN EUROPE). CLEARLY, ALL SUCH INFERENCES STEM FROM  
IRRESPONSIBLE ORIGINS, BUT THEY HAVE HAD THEIR EFFECT ON THE GOI'S  
PETROLEUM MINISTRY. A VARIETY OF STUDIES ARE UNDER WAY, AND  
OFFICIAL GOI EXPLANATIONS ARE BEING PREPARED. PARLIAMENT, AFTER  
ALL, RECONVENES FOR ITS FALL SESSION ON NOVEMBER 12.

4. DURING THE PAST WEEK, THE MINERALS ATTACHE DISCUSSED THE  
POSSIBLE CRUDE CUTBACKS WITH PETROLEUM MINISTRY PERSONNEL AND  
OIL COMPANY REPRESENTATIVES IN A ATTEMPT TO PLACE KNOWN FACTS  
AND REASONABLE ESTIMATES IN THEIR PROPER PERSPECTIVES. A  
CONSENSUS OF BOTH PETROLEUM GROUPS THUS PROVIDES THE FOLLOWING  
OUTLOOK:

5. THE REAL MAGNITUDE OF THE REPORTED CUTBACKS (VOLUME-WISE)  
REMAINS CONJECTURAL ONLY. OPTIMISTS IN THE GOI ARE CURRENTLY  
OF THE VIEW THAT ALL REQUIRED CRUDE OIL IMPORTS "WILL SOMEHOW  
CONTINUE TO FLOW TOWARD INDIA." THEY POINT OUT THAT INDIA'S  
GOOD STANDING AMONG THE NON-ALIGNED COUNTRIES GENERALLY, AND THE  
ARAB OIL PRODUCING COUNTRIES SPECIFICALLY, COMBINE TO SUGGEST  
THAT INDIA "PROBABLY" WONT BE AFFECTED BY EMBARGOS, CUTBACKS,  
OR OTHER RESTRICTIONS, AT ALL IN THE COMING MONTHS. THE ALARMISTS,  
ON THE OTHER HAND, SEE NOTHING BUT SEVERE BELT-TIGHTENING IN OIL,  
"AN UNPRECEDENTED OIL CRISIS" AND ADDED SETBACKS TO THE COUNTRY'S  
ECONOMY. REALITY DOES NOT ALTOGETHER FAVOR THE OPTIMISTS,  
BUT THE LEANINGS DO APPEAR TO BE IN THAT DIRECTION. CERTAINLY,  
DISASTROUS REDUCTIONS IN CRUDE OIL IMPORTS, OR SIGNIFICANTLY  
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FM AMEMBASSY NEW DELHI  
TO SECSTATE WASHDC 7738  
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6. CRUDE OIL CUTBACKS TO INDIA MAY TAKE ONE OF SEVERAL FORMS. (1) THE TWO WHOLLY-OWNED AMERICAN COMPANIES ONLY (CALTEX AND ESSO), MAY BE REQUIRED TO ENFORCE REDUCTIONS; (2) BURMAH-SHELL MAY BE COMPELLED TO CUT BACK IMPORTS AS WELL; OR (3) ALL CRUDE IMPORTERS MAY FIND CUTBACKS NECESSARY. THE OVERALL QUANTITY OF CRUDE TO BE LOST THROUGH THE ANTICIPATED REDUCTIONS IS, OF COURSE, ONE OF TWO CRITICAL CONCERNS TO THE GOI. THE OTHER: FOREIGN EXCHANGE EXPENDITURES THAT PROMISE TO CONTINUE THEIR UPWARD TREND EVEN IN THE FACE OF QUANTITIATIVELY REDUCED IMPORTS.

7. IF, THEREFORE, WE MAY ASSUME THE MOST SEVERE SET OF CIRCUMSTANCES THAT COULD (LOGICALLY AT THIS DATE, AT LEAST) BEFALL INDIA THROUGH CUTBACKS OF IMPORTED CRUDE, WE WOULD DEVELOP A BASE USING CONDITION (3), CITED ABOVE. TO THIS, WE MAY NEXT ASSUME AN OVERALL AVERAGE (HYPOTHETICAL) CRUDE CUTBACK OF 20 PERCENT; TO BE IMPOSED UNIFORMLY (BY ALL IMPORTERS) THROUGHOUT CALENDAR YEAR 1974. IMPORTS OF CRUDE OIL TO INDIA DURING 1974 WOULD THEN TOTAL ABOUT 94.11 MILLION BARRELS (COMPARED TO 113.45

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MILLION BARRELS IN 1973, AND A GOI PLANNING COMMISSION "MAXIMUM" ESTIMATE OF 117.64 MILLION BARRELS FOR 1974, IF ALL PLANNED IMPORTS ARE RECEIVED IN FULL MEASURE). A REDUCTION OF THIS MAGNITUDE (SHOULD IT DEVELOP) HAS BEEN VIEWED WITH ALARM BY SOME. YET, A 94.11 MILLION-BARREL YEAR, PLUS INDIA'S NORMAL DOMESTIC CRUDE PRODUCTION (AT 56.99 MILLION BARRELS ANNUALLY), CONFORTABLY EXCEEDS THE COUNTRY'S REFINERY THROUGHPUT DURING 1972; AND OF EACH PRECEDING YEAR.

8. ON NOVEMBER 3, THE GOI (NOT UNEXPECTEDLY) ANNOUNCED DRAMATIC INCREASES IN THE RETAIL SELLING PRICES OF PETROLEUM PRODUCTS THROUGHOUT INDIA. REPORTEDLY, THIS STEP WAS TAKEN SOLELY TO CURB CONSUMPTION IN LIGHT OF RECENT AND ANTICIPATED INCREASES IN THE IMPORTED CRUDE OIL PRICES ON THE WORLD MARKET. FURTHER, THE GOI STATED THAT A FORMAL PRODUCT RATIONING PROGRAM MAY BE REQUIRED LATER IF VOLUNTARY REDUCTIONS IN CONSUMPTION PROVE INADEQUATE. MODERATE CUTBACKS IN CRUDE OIL IMPORTS, IN THEORY THEREFORE, COULD ASSIST THE GOVERNMENT IN ITS CONSUMPTION-CURTAILMENT EFFORTS. IF SIGNIFICANT CUTBACKS ARE NOT IMPOSED,

THE GOI MAY REDUCE ITS OWN PURCHASES TO PREVENT A RUN-AWAY  
OUTFLOW OF FOREIGN EXCHANGE. VOLUME-WISE, AN "OIL CRISIS"  
SHOULD NOT DEVELOP UNLESS OR UNTIL THE THREATENED CRUDE CUT-  
BACKS APPROACH AN UNLIKELY 35 PERCENT OF PLANNED TOTAL IMPORTS  
(TO A CRUDE AVAILABILITY-LEVEL BELOW THAT OF 1969 IMPORTS).  
COST-WISE, HOWEVER, THERE IS AT THE VERY LEAST NO RESPITE IN  
SIGHT -- THOUGH EVEN IN THIS AREA OF CONSIDERATION THE AVOIDANCE  
OF A "CRISIS" APPEARS POSSIBLE; BARRING AN UNFORESEEN BREAKDOWN  
IN FOREIGN EXCHANGE EARNINGS FROM TOTAL EXPORTS DURING 1974  
AND BEYOND.

9. INIDA'S C.I.F. FOREIGN EXCHANGE EXPENDITURES FOR CRUDE  
OIL IMPORTS DURING 1973 WILL HAVE REACHED A NEW HIGH OF DOLS 358.5  
MILLION BY YEAR-END. STILL ANOTHER PEAK SEEMS INEVITABLE DURING  
1974 -- EVEN IF IMPORTS ARE REDUCED BY VOLUME TO THE HYPOTHETICAL  
LEVEL (OF 94.11 MILLION BARRELS ) DESCRIBED IN PARA 7 ABOVE.  
WITH KNOWN AND ESTIMATED CRUDE OIL COSTS APPLIED (AT AN AVERAGE  
ESTIMATED 1974 DISCOUNTED PRICE OF DOLS 4.25 PER BARREL, C.I.F.  
BOMBAY) A 94.11 MILLION-BARREL YEAR MAY BE EXPECTED TO COST  
THE GOI AN APPROXIMATE TOTAL OF DOLS 400.0 MILLION. IF IMPORTS  
SHOULD ULTIMATELY REACH THE "MAXIMUM" LEVELS ENVISAGED EARLIER  
BY THE PLANNING COMMISSION (117.64 MILLION BARRELS), THE 1974  
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IMPORTED CRUDE OUTLAY MAY THEN EXCEED DOLS 500.0 MILLION;  
OR AN ADDITIONAL EXPENDITURE OF SOMETHING IN THE RANGE OF  
DOLS 0.7-1.0 BILLION OVER THE PERIOD OF GOI'S FIFTH FIVE YEAR  
PLAN (MARCH 1979).

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## Message Attributes

**Automatic Decaptoning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** PETROLEUM PRODUCTION, EXPORTS, PETROLEUM INDUSTRY, EMBARGOES, RETAIL PRICES  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 06 NOV 1973  
**Decapton Date:** 01 JAN 1960  
**Decapton Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Authority:** elyme  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
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**From:** NEW DELHI  
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